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March 22, 1995

William F. Caton
Secretary
Federal Communications Commission
1919 M Street, NW
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

RE: Ex Parte Comments in CC Docket No. 94-1
(Price Cap Performance Review for Local Exchange Carriers)

Dear Mr. Caton:

The International Communications Association ("ICA") has obtained the ex parte submission of the United States Telephone Association ("USTA") dated March 16, 1995 in the above-referenced docket. The submission includes what USTA characterizes as a "very recent study by National Economic Research Associates." In fact, the NERA study, which is entitled "Effects of Competitive Entry in the U.S. Interstate Toll Market," is actually almost three years old!

This study has been shown to be erroneous, and ICA believes it should be given absolutely no weight by the Commission. The NERA study incorrectly calculated interstate toll price decreases. It utilized the U.S. Bureau of Labor Statistics ("BLS") series Consumer and Producer Price Indexes in order to estimate AT&T's toll rate reductions. It is widely acknowledged in the U.S. that these data are not reliable. The BLS has not updated its toll price index baskets to account for the market effects of competition, discount rate plans, and a host of other factors that are, in fact, among the leading developments in the U.S. telecommunications industry.

The BLS toll price index basket is based upon standard AT&T tariff rates, without recognizing extremely significant fact that today no more than about 20% of residential users acquire their long distance services at these rates and very few, if any, multi-line business customers pay these rates. AT&T and its long-distance competitors now offer discount plans of one type or another to almost all customers, residential or business. Today, AT&T alone has nearly 2,200 contract tariff offerings on file at the FCC for medium to large businesses and its non-contract rates also include significant volume and term discount schedules. This is in addition to the almost 80% of AT&T's residential customers that are subscribing to some form of discount service offering.

NERA states incorrectly that there were \$10.9 billion in interstate access price reductions due to rate re-balancing versus only \$8.2 billion in end user price reductions. The latter figure is derived

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from the faulty price index data. More recent data that accounts for the effects of all major long distance carrier price reductions, not just AT&T's, and reflects the multitude of available discount plans, shows that there were \$21.6 billion in cumulative long distance carrier price reductions but only \$12.6 billion in cumulative access rate reductions from 1991 to 1993.


USTA should already be aware of this problem because it has been discussed in both state and federal regulatory fora. [See Letter to Chairman Reed E. Hundt from Douglas Mains, Chief Financial Officer, MCI Communications Corporation, June 14, 1994, stating that, "The BLS calculation...incorrectly states that long distance rates have increased...FCC Staff...are aware of the problems with the BLS number." The letter correctly notes that U.S. interstate long distance rates actually declined by 2.7% in 1993 alone.

The most disturbing aspect of USTA's ex parte submission is not that it is re-offering a study for Commission consideration that is known to be invalid. With yet another last minute filing, USTA persists in trying to draw the Commission's attention away from the real issues in CC Docket No. 94-1. Having failed to justify its very low productivity estimate for price cap LECs, which was based upon inconsistent and manipulative use, having failed to make a convincing case that sharing in the price cap plan should be eliminated, and having failed to prove its allegations about competition in local markets, USTA's has yet again resorted to raising issues that are not germane to the central theme in this proceeding.

Its a common tactic to try to divert the focus of a proceeding in this way, as any observer of a famous current West Coast criminal trial is aware. The Commission should disregard USTA's most recent attempt to have it divert its attention away from the facts in this proceeding which clearly support immediate Commission action to prevent cross-subsidization, assure competitive neutrality, and protect the public interest with lower access rates. The record in this proceeding clearly indicate that the Commission can accomplish these objectives by: 1) increasing the productivity offset to no less than 5.7%, 2) reinitializing rates to 10%, and 3) continuing the use of "sharing".

Respectfully submitted,

International Communications Association

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